

CITY OF GOLD BAR
Snohomish County, Washington
January 1, 1992 Through December 31, 1993

Schedule Of Findings

1. Financial Statements Should Be Prepared

City officials prepared incomplete financial statements for 1992 and did not prepare any financial statements for 1993.

In 1992, the following financial statements and reports were prepared for the Current Expense Fund and the Street Fund:

-) Statement C-4: Fund Resources and Uses Arising From Cash Transactions (detailed)
-) Statement C-5: Fund Resources and Uses Arising From Cash Transactions (summarized)
-) Schedule 04: Schedule of Revenues and Other Resources
-) Schedule 05: Detail of Expenditures and Other Uses
-) Schedule 11: Operation of Cash
-) Schedule 12: Operation of Investments

For 1992, the Water, Capital Improvement, Water Debt Service, Water Reserve and Contingency Funds did not have any of the required statements and reports prepared.

In addition, the following reports were not prepared for any of the funds in 1992:

-) Schedule 08: Schedule of Real and Personal Property Taxes
-) Schedule 09: Schedule of Long-term Debt
-) Schedule 16: Schedule of Financial Assistance
-) Schedule 17: Annual Report on Public Works Projects
-) Schedule 18: Schedule of Criminal Justice Expenditures

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other

political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class
...

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; and all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized
... (Emphasis added.)

Also, RCW 35.27.220 Town Clerk) Duties, states in part:

At the end of every fiscal year he (she) shall make a full and detailed statement of receipts and expenditures of the preceding year and a full statement of the financial condition of the town which shall be published.

None of the required financial statements and reports were prepared for 1993.

Without complete financial records and properly prepared financial statements, the taxpaying public, regulating agencies (such as agencies providing grant funds to the town), lending agencies, financial advisors, and investors do not have the assurance that finances are used in compliance with applicable statutes.

This is a continuation of an on going problem with the City of Gold Bar. As a result of conditions found during our last audit, we reported that no financial statements and reports had been prepared for the years 1991, 1990, or 1989.

We again recommend that city officials ensure that accurate and complete financial statements and reports are prepared.

2. Accurate And Complete Financial Records Should Be Maintained

During 1993, city officials did not post all transactions to the accounting records and maintain necessary detail of transactions to allow us to determine if all expenditures were entered into the accounting records.

RCW 43.09.240 states in part:

Every public officer and employee shall keep all accounts of his office in the form prescribed and make all reports required by the state auditor.

This condition results in the following problems:

- a. Financial reports which are required by RCW 43.09.230 could not be prepared. The taxpaying public, regulating agencies (such as agencies providing grant funds to the town), lending agencies, financial advisors, and investors do not have the assurance that finances are used in compliance with applicable statutes.
- b. There is an increased cost in the audits, required by RCW 43.09.260, when financial records are not properly maintained.

Both automated and manual accounting systems were used during 1993. December transactions and year-end expenditure accruals were never entered into the automated system and the new clerk/treasurer, who assumed her duties in January of 1994, was reluctant to place reliance on data entered for the earlier months.

The manual system also lacked some December transactions and the year-end expenditure accruals. In addition, some information was entered in summary form only, with the detail kept in the automated system. Detail supporting only the first five months of payroll activity was recorded in the manual system. The remaining months' detail was recorded only in the automated system. City officials concluded that it would be too time consuming a task to reconstruct the detail in the manual records.

The mayor and clerk/treasurer decided that the cities resources would be better utilized processing 1994 data than reconstructing 1993. This decision was made after considering the number of personnel hours required to complete the 1993 accounting records on either the computer or in the manual system.

We recommend that city officials ensure that adequate and complete financial records are maintained.

3. The City Should Implement Improved Control Over Cash Handling And Monitor Those Controls To Assure They Are In Place

During the audit we noticed lack of control over the handling of cash receipts in city hall.

- a. There was a lack of segregation of duties between those individuals responsible for the custody of cash receipts and those responsible for related record keeping.
- b. We found that the serial numbering system on the preprinted cash receipts forms was not being used as a control over cash.
- c. The cash/check composition of the daily bank deposit was not being monitored by personnel independent of the person preparing the deposit.
- d. The cash register was not being utilized to process receipts. The cash register could provide management with controls over the number of transactions processed each day and the cash/check composition of those transactions.
- e. There were no written policies covering cash handling procedures. Such policies should give guidance to accounting and cashiering personnel. In addition, written policies provide continuity when the city experiences turnover in the personnel involved in these functions.

The city is responsible to establish a system which provides safeguards of the city's assets. Without a strong system of accounting and administrative controls over cash receipts, city officials have no assurance that errors or irregularities will be detected in a timely manner.

We recommend that city officials develop and maintain a stronger system of accounting and administrative controls over cash receipting functions. We specifically recommend:

- a. Cash handling and receipting duties should be segregated from related record keeping. When staffing constraints prohibit the necessary segregation, oversight must be provided by management or elected personnel.
- b. A system must be implemented to account for all serialized manual cash receipts now in use. A log should be maintained to assign responsibility for cash receipt books. All voided receipts should be accounted for.
- c. The cash/check composition of the daily bank deposit should be reconciled to information on the individual receipts processed during the day.
- d. All receipting should be processed on the cash register. The daily deposit should be reconciled to the mode of payment and item count controls in the machine.
- e. Formal written procedures should be established over all cash receipting activities.

4. Expenditures Should Be Limited To Appropriations

For the year ended December 31, 1993, we could not determine whether the city complied with its budget ordinance due to incomplete financial reporting (Finding 1). In the year ended December 31, 1992, the following funds exceeded their appropriated budgets:

<u>Fund</u>	<u>Amount Exceeded</u>
Current Expense	\$79,727
Water	38,946
Street	9,233

RCW 35A.33.120 states in part:

The expenditure as classified and itemized in the final budget shall constitute the city's appropriation for the ensuing fiscal year. Unless otherwise ordered by a court of competent jurisdiction, and subject to further limitations imposed by ordinance of the code city, the expenditure of city funds or incurring of current liabilities on behalf of the city shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year, without regard to the individual items contained therein

RCW 35A.33.125 states in part:

Liabilities incurred by any officer or employee of the city in excess of any budget appropriations shall not be a liability of the city. The clerk shall issue no warrant and the city shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund

The failure of city officials to monitor expenditures against budgeted appropriations can place the city in the position of having insufficient cash flow to meet its obligations. In addition, city officials neglect their stewardship responsibility to their taxpayers by not controlling budget expenditures.

We recommend that city officials develop and implement a system of controls which require preparation of timely, accurate financial information with actual to budget comparisons. Budgets monitoring should ensure expenditures are limited to approved appropriations.

5. The City Council Should Approve All Expenditure Vouchers In An Open Public Meeting

During our review of minutes of the Gold Bar City Council, we found that the council did not document the check sequence and amount of expenditures approved. Only the minutes for February 18, 1992, March 17, 1992, and June 16, 1992, had the required approvals.

RCW 43.29.200 states in part:

The state auditor, through such division, shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The *Budgeting, Accounting and Reporting System* (BARS) manual promulgated by the State Auditor in Volume 1, Part 3, Chapter 3, and page 25 states in part:

To indicate governing body approval for payment of claim vouchers and payroll, the following should be entered in the minutes:

(Funds)	Total
Voucher (warrant) numbers: ____through____	\$____
Payroll warrant numbers: ____through____	\$____

Approval of all expenditures made by the city is a council responsibility. To comply with the BARS requirement and avoid duplication of expenditures, the check sequence and total amount should be recorded in the minutes. The taxpaying public should be able to determine if the council has fulfilled its stewardship responsibility to approve expenditures by reviewing the minutes.

We recommend the city council approve expenditures and record the check series and total of the expenditures in the minutes.

6. City Officials Should Control Citation Numbers

Our review of the traffic citations issued by the Gold Bar Police Department indicated that numerical control over citation books was not being maintained. We also found that no comparison was made of citations issued with those received by the city traffic violations bureau or the local district court.

RCW 46.64.010 states in part:

The chief administrative officer of every such traffic enforcement agency shall be responsible for the issuance of such books and shall maintain a record of every such book and each citation contained therein issued to individual member of the traffic enforcement agency and shall require and retain a receipt of every book so issued.

RCW 46.64.010 states in part:

Such chief administrative officer shall also maintain or cause to be maintained in connection with every traffic citation issued by an officer under his supervision a record of the disposition of the charge by the court or its traffic violation bureau in which the original or copy of the traffic citation was deposited.

The total numerical series of citations purchased by the city is not controlled by city officials. Citation books which haven't been issued to police officers could be missing and the city wouldn't necessarily detect the problem in a timely manner.

The city officials log all citation books which are issued to police officers, but they do not inventory and control the unissued books. When a purchase of citations books is made, the number of books and their number series on the shipping report is not retained. City officials do not perform a periodic inventory of issued and unissued books to determine that all citations can be accounted for.

Additionally, city officials do not routinely reconcile police department records of citations issued with records of the local district court and the city's own traffic violations bureau to determine that all citations issued have received some formal disposition.

We recommend that city officials establish procedures to account for all citation books and to ensure that all citations issued receive some formal disposition.

7. Annual Street Cost Reports Should Be Prepared

The annual street cost report for the city was not prepared for either 1992 or 1993. This report details street revenues, expenditures, and operations for the year.

RCW 35.21.260 states in part:

The governing authority of each city and town on or before March 31 of each year shall submit such records and reports regarding street operations in the city or town to the secretary of transportation on forms furnished by him as are necessary to enable him to compile an annual report thereon.

When the street report is not prepared, the state Department of Transportation is unable to prepare all its reports as required by law.

Due to the condition reported herein in Finding 1, the information necessary to prepare the report was not available.

We recommend that the annual street cost report be prepared as required by law.

8. City Officials Should Develop Policies And Procedures For Cellular Telephone Use

Police officers have cellular phones which they use for personal and business calls. Calls are billed at the state contract rate. Phone bills are sent to the Gold Bar Police Department for each of the officers. Each police officer pays for all calls on their bill.

Under the terms and conditions of the contract with US West Cellular Company, the City of Gold Bar guarantees payment for employees who use the state contract. In the event an officer could not or would not, pay the monthly bill, the City of Gold Bar could be liable for the amount of the debt. This act of surety constitutes the lending of city's credit.

The *Constitution of the State of Washington*, Article 8, Section 7, states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company, corporation . . . (Emphasis added).

Without a proper agreement between the city and the police officer, the city could be liable for personal phone calls. Additionally, the city is in violation of the constitutional prohibition against lending its credit to an individual.

The mayor and city council have not developed a formal policy for cellular phone use nor have they given consideration to potential liability of the city.

We recommend that city officials develop policies and procedures for cellular phones which address such points as need, purchase and use. Also, an agreement should be adopted between the city and each employee, so the city will not be in the position of guaranteeing payments for personal calls.